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Economic Intelligence Weekly 6 Aug 75 ER EIW 75-31

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Economic Intelligence Weekly

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6 August 1975

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ECONOMIC INTELLIGENCE WEEKLY

6 August 1975

Overview

The OECD Now Anticipates a 1975 GNP Growth Rate of Less Than 1% in the 17 Smaller Countries, Compared with Their Long-Run Average of More Than 5%. In its semiannual Economic Outlook, the OECD indicates that the countries with the gloomiest growth prospects are Switzerland (-3.25%), Ireland (-1.5%), and the Netherlands (-0.5%). Only Norway is forecast to achieve creditable growth (4.5%), because of stimulus from its oil sector. Even though the OECD has lowered its forecasts from earlier in the year, we believe they are still a shade too optimistic. Recovery in the Big Seven, crucial to the smaller countries, will likely be slower than the OECD expects.

The Temporary Restrictions on New Foreign Wheat Sales by Canada and the EC Will Tighten Grain Markets, Forcing the Soviets To Raise Their Offer Prices If They Want Additional Quantities. [redacted] 25X6
25X6 The EC has limited the payment of export subsidies to grain deals approved by the EC Commission. The Commission is unlikely to approve large export contracts until the world supply picture becomes clearer.

25X1A Note: Comments and queries regarding the *Economic Intelligence Weekly* are welcomed. They may be directed to [redacted] the Office of Economic Research, Code 143, Extension 7555.

The EC's Compromise Set of Guidelines on Raw Material Issues Is, at Best, Only a Building Block Toward a Community Raw Materials Policy. The guidelines -- which were hammered out at a meeting in Brussels last month -- will serve as a point of departure for discussions at the Seventh Special Session of the UN on 1 September. The Community has agreed to examine raw material issues on a commodity-to-commodity basis and to endorse programs to stabilize LDC export earnings, without specifying the means of financing such programs.

Metal Prices in Major World Markets Remain Relatively Stable Despite Weak Demand. In the last month, zinc, lead, and copper stocks held on the London Metals Exchange rose 170%, 35%, and 17%, respectively. Because of the large inventory overhang, prices will remain flat even after economic recovery in the industrial countries starts. In most of these countries, domestic stocks of key metals remain unusually large in relation to both current and expected consumption. (Confidential)

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Articles

DEVELOPED COUNTRIES: INVENTORIES IN PERSPECTIVE

Inventory-building was reduced sharply in early 1975 in four of the major foreign countries, as well as in the United States, halting the rapid accumulation of surplus stocks that occurred last year.* In all of the countries examined, except the United Kingdom, cumulative surplus stocks appear to have peaked after the turn of the year. In Japan, Canada, and the United States, they hit record or near-record levels. Moreover, because surplus stocks of this magnitude are unusual at this stage of the business cycle, we expect stockbuilding to play an abnormally weak – and perhaps even a negative – role in recovery over the next few quarters.

Recent Trends

In early 1975, companies attempted to bring their excess inventories into line with sagging sales. In three of the major developed countries, they reduced stockbuilding substantially, while in two others they actually cut inventories.

25X6

[redacted]

In the *United States*, manufacturing and trade inventories fell in four of the first five months of 1975, sliding down at a record pace in May; total stocks, including raw materials, dropped by $3 billion in the first quarter and $5 billion in the second.

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[redacted]

* For a definition of ***surplus stock accumulations*** as used in this article, see the methodological note, which follows the second graphic. France and Italy are excluded from this analysis because of a lack of quarterly data.

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The decline in stockbuilding was a major factor in the first-quarter deterioration in real GNP (seasonally adjusted). In the United States, the stock drawdown accounted for the entire 3% drop in GNP. [redacted] 25X6

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Implications for Recovery

In sharp contrast with most earlier postrecession periods, when inventory rebuilding gave a strong boost to expansion, stock changes are expected to be a neutral force at best for several months to come. A key factor determining the role of stocks in upswings is the timing of the inventory cycle peak in relation to the business cycle. Usually, recovery begins at a time when inventories already have neared their low. On those rare occasions when the inventory cycle peak and the business cycle trough have overlapped – [redacted] – stockbuilding has remained weak or negative for the first few quarters of the recovery period. [redacted]

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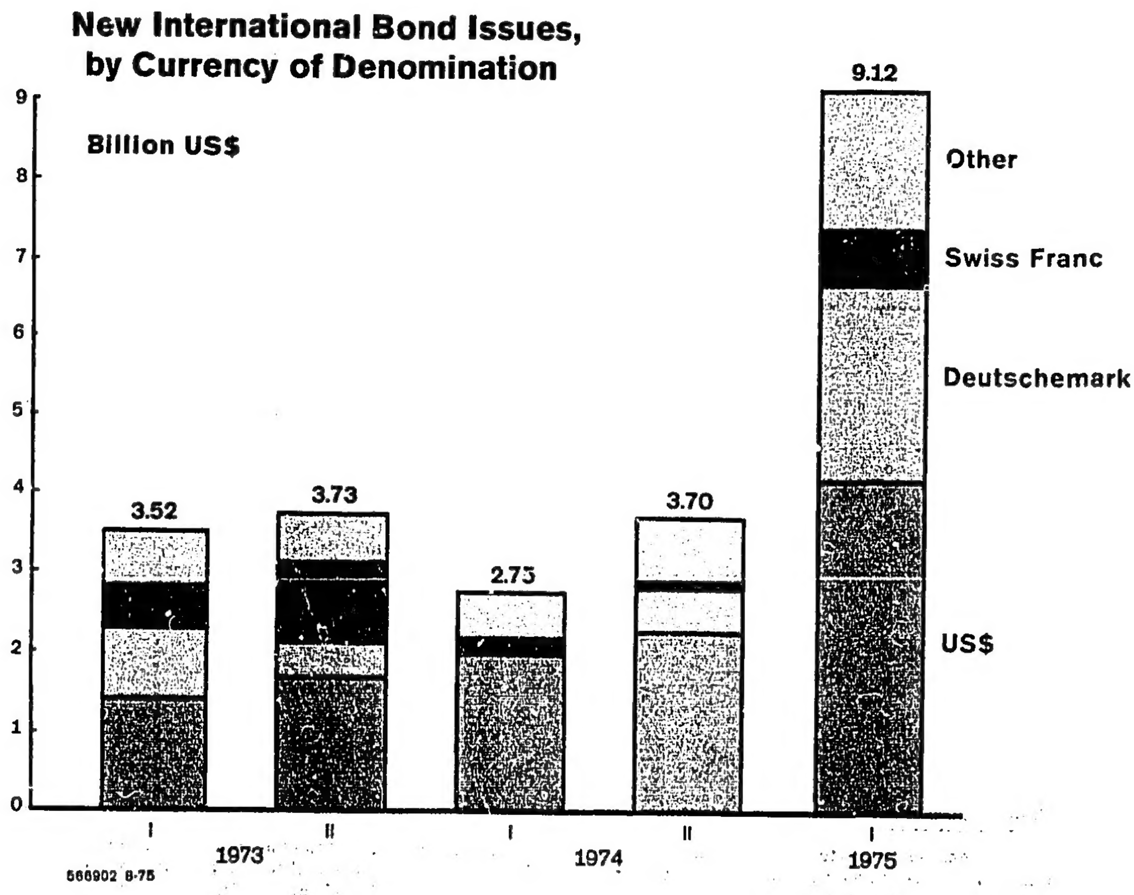
INTERNATIONAL BOND MARKET: RECORD LEVEL OF ISSUES

Moderation of inflation and a fall in short-term interest rates facilitated a record $9.1 billion in new international bond issues in the first half of 1975, compared with $6.5 billion in all of 1974. This surge has enabled countries with large but manageable current account deficits to float longer term obligations. Oil-exporting countries have increased purchases substantially. These and other investors remain cautious and selective, and nations with the most serious financing problems have not benefited from the revival of the bond market.



Factors at Play

The return of a normal interest rate structure, with bonds yielding 1% to 2% more than short-term Eurodollar deposits, has provided investors with the incentive to purchase new bond issues. The relatively short lives of new issues, 5-8 years, indicate the concern of investors over prospects for a new burst of inflation.

The volume of issues denominated in strong European currencies has increased the most. Swiss franc and West German mark bonds have been particularly popular since they offer investors the opportunity to hold preferred currencies and still receive a competitive rate of return. [redacted] 25X6
25X6 the Swiss impose a 10% quarterly tax on new deposits.

The share of new issues denominated in dollars dropped from 65% in 1974 to 46% in first half 1975. This trend is likely to be reversed in the second half because of the recent strength of the dollar.

Composition of New International Bond Issues
January-June 1975

Million US $

Type of Issuer	US Dollar	Deutsche-mark	Swiss Franc	Other	Total
	Currency of Denomination				
All issuers	4,180	2,477	697	1,763	9,117
Private firms	947	569	370	498	2,384
Foreign state-owned enterprises	1,497	865	114	884	3,360
Foreign governments	1,156	690	165	191	2,202
International organizations	580	353	48	190	1,171

Boon for Qualified Borrowers

New bond issues have accounted for about half of the medium- and long-term funds raised internationally so far this year. Last year, borrowers were forced to resort to Eurocurrency loans at floating interest rates for more than 80% of such funds.

Governments and their agencies accounted for nearly two-thirds of new issues in the first half of 1975, compared with just over half in 1974. France, one of the most active borrowers, floated more than $1 billion worth. [redacted] 25X6

25X6
25X6 [redacted] Public and private borrowers from Sweden, Austria, and Australia – countries with relatively large current account deficits – tapped the market for nearly $1.7 billion.

Those countries with lower credit ratings have not been able to take advantage of the market's recovery. Italy and hard-pressed LDCs have floated no bonds. [redacted] 25X6

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OPEC Activity

OPEC countries have become important participants in the bond market. We have direct evidence that Kuwaiti purchases amounted to $200-$400 million in the first half of this year, and we suspect the actual total substantially exceeds $400 million. The Saudis have been increasingly active, recently purchasing all of a $150 million issue by AT&T. Kuwaiti financial institutions have helped to manage and sell more than one-third of the $9 billion in new issues; several, designed to attract Middle East investors, have been denominated in Kuwaiti dinars.

Implications

The resurgence in bond issues has improved the ability of private markets to handle longer term borrowing, reducing the need for intermediation by commercial banks. It also may be an early sign that the wealthiest OPEC members are lengthening the maturity structure of their massive portfolios. The relief may be temporary because an economic upturn in the industrial nations could push up short-term interest rates this fall. The anticipated OPEC price hikes could also hurt the market, by renewing inflation fears. (Confidential No Foreign Dissem)

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[redacted]

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ITALY LAUNCHES RISKY REFLATION PROGRAM

Rome's bold new reflationary package reflects the Moro government's eagerness to demonstrate unimpaired leadership following heavy Communist gains in the June regional elections.

The $5.5 billion program – expected to be approved by the cabinet this week – places Italy in the forefront of the major developed nations in adopting antirecession measures. It represents a marked shift in policy and runs counter to the advice of the OECD, the EC Commission, and the Bank of Italy. These bodies have been advocating a more conservative posture, to avoid aggravating inflation and jeopardizing the sharp but tenuous improvement in the balance of payments.

Political expedience was the key factor motivating the center-left government to veer down this economically risky path. The Communists have found an increasingly sympathetic audience for claims that they alone can solve Italy's problems. By preempting many of their spending plans, the Moro government apparently hopes to undercut Communist efforts to win a larger role in the national political scene.

The Package

The new spending program attempts to stimulate demand while stilling public clamor for improved governmental services. The measures fall into three major categories:

- improvements in public housing, hospitals, ports, airports, and urban transportation ($2.5 billion);
- increased export insurance coverage ($1.75 billion); and
- aid for small and medium-size businesses, for agriculture, and for economic development of southern Italy ($1.25 billion).

The Impact on Growth

This fiscal stimulus should generate a direct expansion of domestic demand equivalent to 3% of GNP, with the bulk of the impact coming in 1976. Multiplier and psychological effects on consumers and investors will amplify this impact, provided that the government is not forced to abort the program.

After falling sharply in late 1974, industrial output has continued to decline. May alone brought a 14% drop, and many observers believe production fell further in June and July. Unemployment continues to edge up and is expected to average 4% this year, compared with 3% in 1974. Short-time work in the first quarter was double the comparable 1974 level.

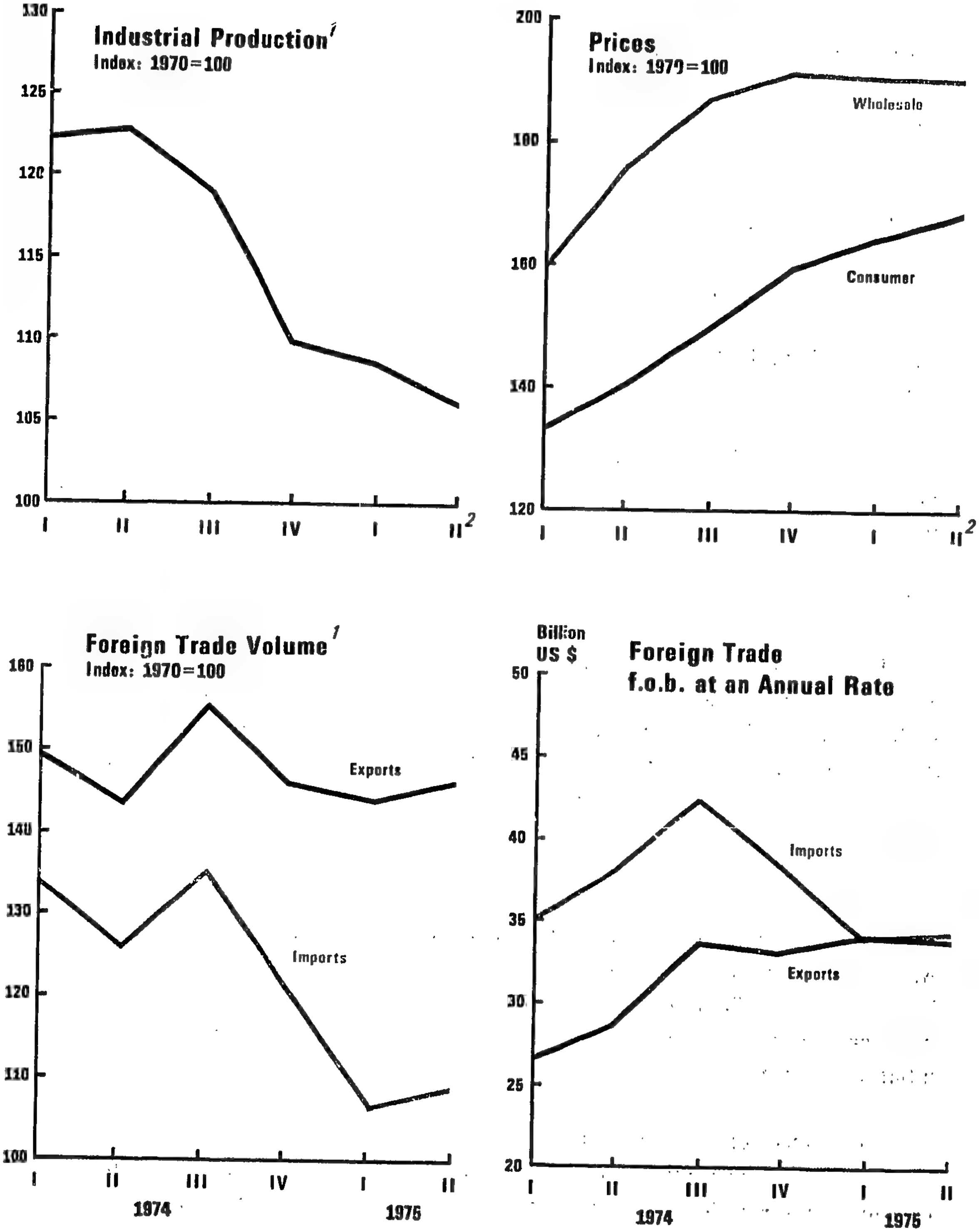
Demand has shown no signs of reviving in recent months. Despite rising real incomes, consumers continue to hold back on spending because of job uncertainties. With capacity utilization at record lows, investment has plummeted, even in the face of easier credit. Export volume, usually a strong prop to production, has been stagnant since last quarter 1974.

. . . . On Prices

The new program, along with sharp increases in government pensions and wages, will boost the excess of budget appropriations over revenues for 1976 by 70% – to $18 billion, the equivalent of 9% of GNP. Although the cash deficit may lag because of bureaucratic delays, government spending will stimulate the inflationary process.

Consumer prices rose at an annual rate of 9% in the latest 90-day period for which data are available, down from about 25% the same time last year. The near-term outlook already has been darkened by threats of a new hike in oil prices, rising prices on other imports, and a weakening lira. Most omniously, wage rates – already 30% above last year's level and not yet digested in the price structure – are sure to rise further this fall when labor unions representing more than 4 million workers negotiate new contracts.

ITALY: Economic Indicators



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1. Seasonally Adjusted. 2. Two Months Only.

. . . . And on the Balance of Payments

The antirecession program also will worsen the trade balance, which had been expected to deteriorate in any case. By stimulating both consumption and inflation, the increase in government spending will raise demand for imports of raw materials and consumer goods and negatively affect exports. As a result of the new package, the trade balance could worsen at an annual rate of $2 billion.

Even before the reflationary program was announced, imports seemed sure to pick up as companies completed adjustments in their stocks of raw materials, particularly oil. At the same time, exports were not expected to grow much because of the slow recovery foreseen in major markets and dwindling sales to the non-oil LDCs. Renewed capital flight, an apparent reaction to Communist success in the recent regional elections, already is hurting the balance of payments. (Confidential)

* * * *

ZAIRE: DETERIORATING FINANCIAL POSITION

Low copper prices and improvident economic policies have created a foreign exchange crunch in Zaire. Foreign loans are urgently needed, but the government is resisting moves to put its financial house in order.

Background of the Crunch

With two-thirds of its foreign exchange earnings from copper, Zaire has been hit hard by falling copper prices. Export prices fell from a peak $1.20 a pound in June 1974 to about 60 cents by yearend. Imports soared in 1974 because of higher prices for oil and other goods and because of expansionary domestic credit and fiscal policies. In addition, repayments on past borrowings resulted in a large net capital outflow despite considerable short-term borrowing. The balance of payments, as a result, moved from a surplus of $54 million in 1973 to a deficit of $226 million in 1974. This shift has continued into 1975.

In the first quarter, foreign exchange expenditures exceeded receipts by $126 million, requiring further borrowing and the drawing down of foreign reserves to a record low -- $90 million in April 1975. Zaire now finds itself unable to borrow sufficient funds to maintain imports and meet its debt obligations.

Zaire: Balance of Payments

Million US $

	1973	1974
Exports	1,038	1,326
Of which:		
Copper	657	852
Imports	646	897
Of which:		
Oil	46	104
Trade balance	392	429
Services and transfers (net)	-331	-473
Current account balance	61	-44
Capital account balance	-7	-182
Overall surplus/deficit	54	-226

Dealing with the Crunch

To cope with the situation, Zaire introduced import controls in early 1975. Foods, drugs, and raw materials for domestic processing may be imported freely; all other items require hard-to-get individual licenses. Even authorized imports are often canceled because the buyer is unable to obtain foreign exchange to make the advance payment demanded by the supplier.

The reduction in imports is disrupting the small industrial sector, which is heavily dependent on foreign inputs. As a result, Zaire's real growth rate, which dropped from 6% in 1973 to less than 4% in 1974, will probably fall further in 1975.

The shortage of foreign exchange also has forced GECAMINES, the state-owned company responsible for almost all copper output, to restrict imports of raw materials and spare parts. This problem and the government policy of replacing foreign with indigenous workers are causing rapid deterioration of copper producing facilities. Recent equipment breakdowns are likely to hold 1975 output well below the scheduled level of 482,000 tons (output in 1974 was 493,000 tons). Production could fall below 400,000 tons, if the situation is not corrected. At this level, output would be even below Zaire's reduced quota under the recent CIPEC agreement.

Outlook

Kinshasha must obtain large foreign loans if it is to survive the current crunch without severe shortages, inflation, and urban unemployment. Copper prices are

unlikely to rise enough over the next year or two to finance imports at the 1974 level, and other exports show little promise of expanding enough to make up the difference. Foreign loans of the required amount will not be forthcoming if Zaire does not institute a systematic program for allocating foreign exchange and for controlling government expenditures. As yet, Kinshasha appears unwilling to commit itself to such a program. We believe, however, that it will be forced to change its attitude during the coming months. (Confidential)■

* * * *

CHINA: OUTLOOK FOR GRAIN IMPORTS

We do not expect the PRC to purchase additional large quantities of grain for delivery in 1975 even if current favorable growing conditions should turn sour. Peking has booked 3.6 million tons of wheat for delivery in 1975 under long-term agreements with Canada and Australia. It has also contracted for about 700,000 tons of grain under a similar agreement with Argentina, of which about half may be delivered this year.

Peking imports grain to help feed urban areas of North China and thus reduce the load on the domestic procurement system. This region produces two grain crops annually. The first or summer crop (primarily winter wheat and barley) is harvested in June and is largely consumed by November, when the second or fall crop (mainly coarse grains) is harvested and available for consumption. The second crop must carry the Chinese during the seven months until the summer crop is harvested the following year. This year's summer crop was good in North China, and the outlook for the fall is also favorable. We conclude that domestic output plus grain imports already booked will provide North China with ample grain until November and possibly beyond. The fall harvest will carry North China beyond the first of the year even if growing conditions were to deteriorate.

In the fall, Peking will probably contract for 2.5 to 5.0 million tons of wheat from Canada and Australia for delivery in 1976 under the third and final year of the long-term agreements. The balance of the agreement with Argentina reportedly has been abrogated by Buenos Aires. China thus may not import any Argentine grain in 1976. (Secret No Foreign Dissem)■

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Publication of Interest*

Aid and Trade Activities of Communist Countries in Less Developed Areas of the Free World, June 1975
(ER RP 75-21, Secret No Foreign Dissem, July 1975)

The June report highlights Communist activities in the LDC petroleum sector during the first half of 1975. It also contains summaries of Communist aid to the LDCs for the first half.

* Copies of this publication may be ordered by calling [redacted] Code 143, Extension 7234. 25X1A

ECONOMIC INDICATORS

Prepared by

The Office of Economic Research

August 6, 1975

Foreword

The *Economic Indicators* provide up-to-date information on changes in the domestic and external economic activities of the major non-Communist developed countries. To the extent possible, the *Economic Indicators* are updated from press ticker and Embassy reporting, so that the results are made available to the reader weeks - or sometimes months - before receipt of official statistical publications.

Comments and queries regarding the *Economic Indicators* are welcomed. They may be directed to [redacted] the Office of Economic Research, Code 143, Extension 7402 or 351-7402. 25X1A

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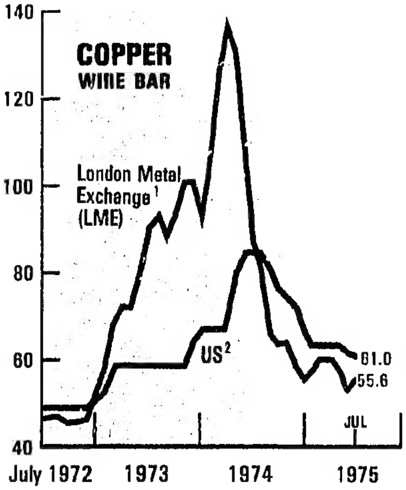
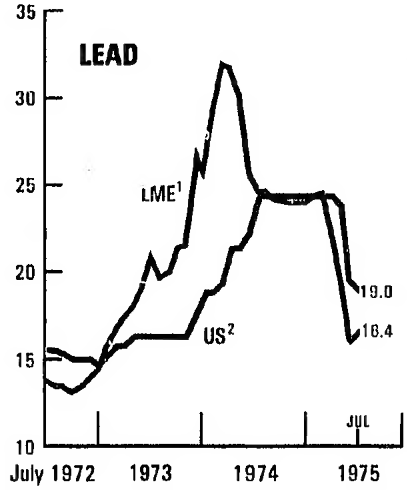
INDUSTRIAL MATERIALS PRICES Monthly Average Cash Price



¢ Per Pound

	LME	US
4 Aug	56.8	63.6
28 Jul	56.7	60.6
Jun 75	54.1	62.3
Jul 74	87.3	85.6

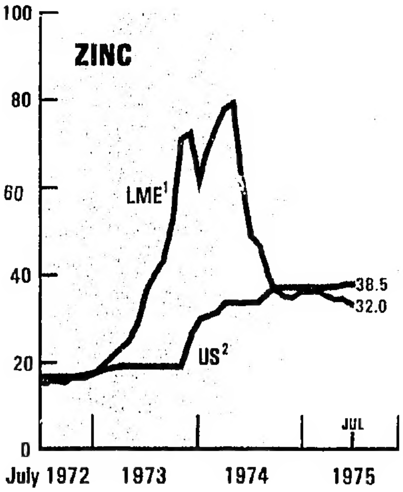


¢ Per Pound

	LME	US
4 Aug	16.8	19.0
28 Jul	16.8	19.0
Jun 75	16.0	19.5
Jul 74	24.8	24.5

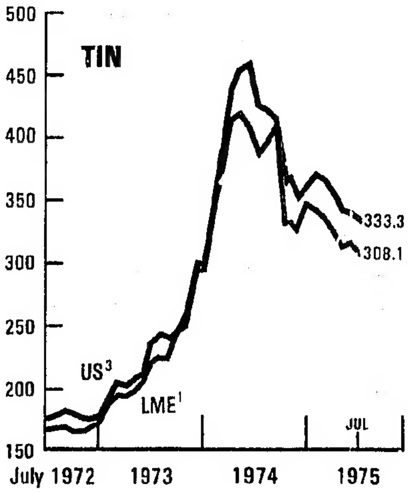
SELECTED MATERIALS

- Aluminum Major US Prod., ¢/Lb
- Steel Composite, $/LT
- Iron Ore Non-Bessemer Old Range, $/LT
- Chrome Ore Russian, $/MT
- Chrome Ore S. Africa, $/LT
- Ferrochrome US Charge, ¢/Lb
- Nickel Major US Prod. Cathode, $/Lb
- Manganese Ore 48% Mn., $/LT
- Tungsten Ore 65% WO_3, $/ST
- Mercury NY, $/76Lb Flask
- Silver LME cash, ¢/Troy Oz



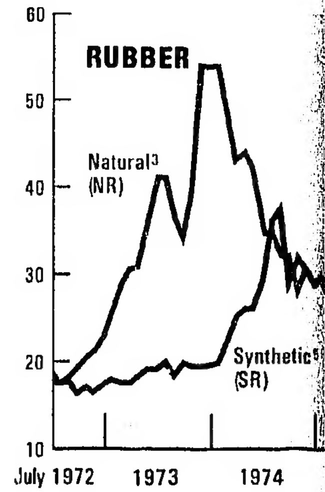
¢ Per Pound

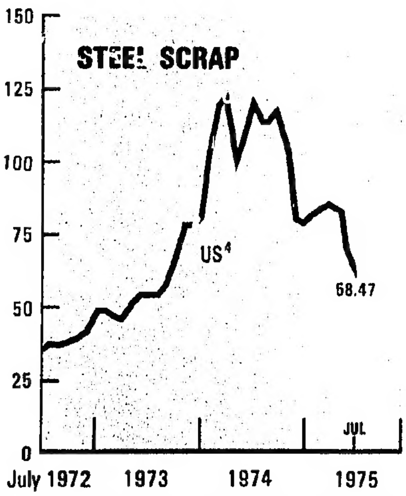
	LME	US
4 Aug	32.3	38.5
28 Jul	31.7	38.5
Jun 75	33.8	38.5
Jul 74	50.0	34.8



¢ Per Pound

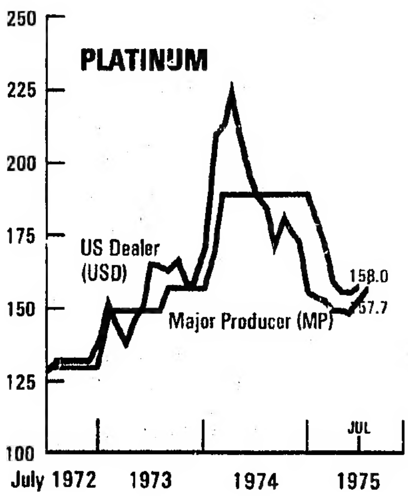
	LME	US
4 Aug	304.3	331.0
28 Jul	311.9	338.5
Jun 75	314.0	342.4
Jul 74	386.8	426.6





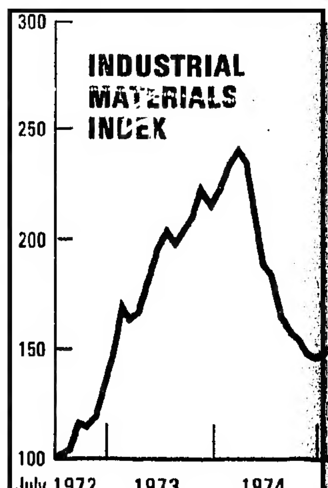
$ Per Long Ton

	US
31 Jul	58.8
28 Jul	54.0
Jun 75	68.9
Jul 74	126.3



$ Per Troy Ounce

	MP	USD
4 Aug	170.0	168.5
28 Jul	155.0	167.0
Jun 75	155.0	147.9
Jul 74	190.0	190.1

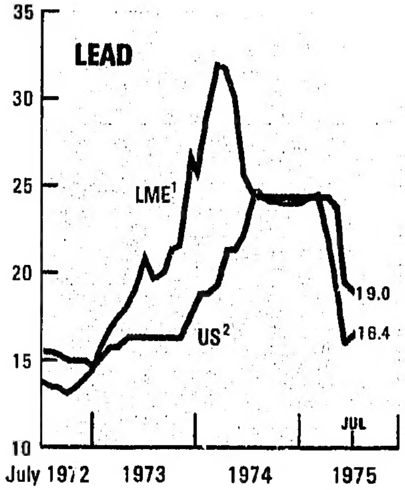


[1] Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME.
[2] Producers' price, covers most primary metals sold in the United States.
[3] Quoted on New York market. [4] Composite price for Chicago, Philadelphia, and Pittsburgh.
[5] S-type styrene, US f.a.s. export price.

PRICES Monthly Average Cash Price

¢ Per Pound

	LME	US
4 Aug	56.8	63.6
28 Jul	56.7	60.6
Jun 75	54.1	62.3
Jul 74	87.3	85.9



¢ Per Pound

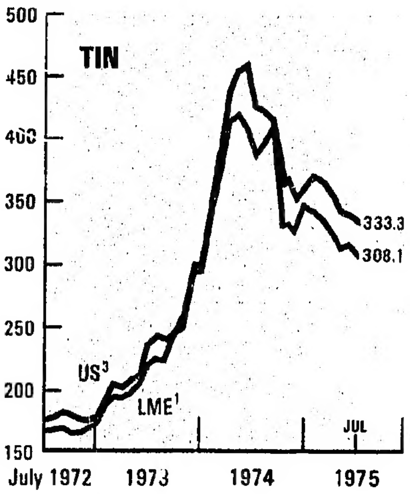
	LME	US
4 Aug	16.8	19.0
28 Jul	16.8	19.0
Jun 75	16.0	19.5
Jul 74	24.8	24.5

SELECTED MATERIALS

	Current	Feb 75	Jan 74	Jan 73
Aluminum Major US Prod., ¢/Lb	39.30	39.00	29.00	25.00
Steel Composite, $/LT	289.23	289.63	212.13	209.66
Iron Ore Non-Bessemer Old Range, $/LT	18.75	17.53	12.16	11.96
Chrome Ore Russian, $/MT	135.00	135.00	38.00	45.75
Chrome Ore S. Africa, $/LT	57.50	57.50	33.50	25.50
Ferrochrome US Charge, ¢/Lb	53.50	52.50	22.50	20.00
Nickel Major US Prod. Cathode, $/Lb	2.01	2.01	1.82	1.53
Manganese Ore 48% Mn., $/LT	67.20	67.20	52.80	31.40
Tungsten Ore 65% WO_3, $/ST	5,239.42	5,930.58	2,872.40	2,241.20
Mercury NY, $/76Lb Flask	140.00	228.40	275.54	282.50
Silver LME cash, ¢/Troy Oz	514.10	440.69	360.29	200.15

¢ Per Pound

	LME	US
4 Aug	32.3	38.5
28 Jul	31.7	38.5
Jun 75	33.8	38.5
Jul 74	50.0	34.8



¢ Per Pound

	LME	US
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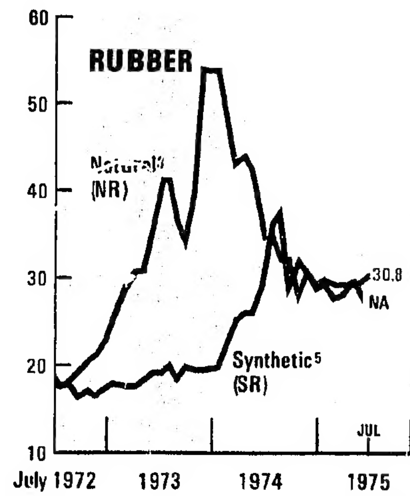
Jul 74	386.8	426.6

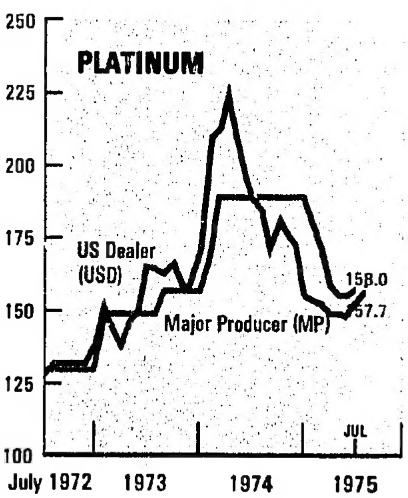


¢ Per Pound

	NR	SR
4 Aug	30.0	NA
28 Jul	29.8	NA
Jun 75	29.5	27.4
Jul 74	34.3	29.6

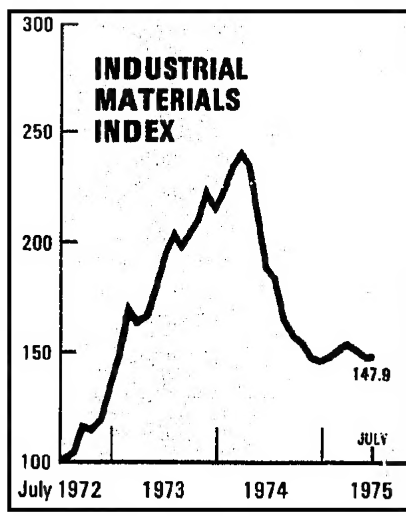
$ Per Long Ton

	US
31 Jul	58.6
28 Jul	54.0
Jun 75	68.9
Jul 74	126.3



$ Per Troy Ounce

	MP	USD
4 Aug	170.0	168.5
28 Jul	155.0	167.0
Jun 75	155.0	147.9
Jul 74	190.0	190.1



CPYRGHT

1970 = 100 CPYRGHT

This is an index compiled by the Economist for 19 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

...r world producers and traders.
...ly traded on the LME.
...nited States.
...cago, Philadelphia, and Pittsburgh.

6 AUGUST 1975

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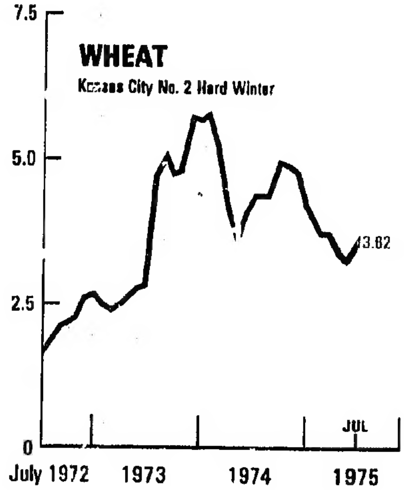
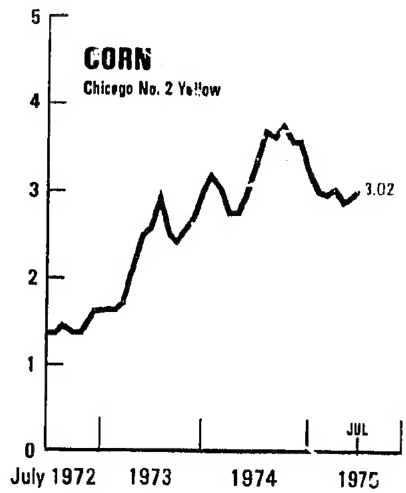
AGRICULTURAL PRICES Monthly Average Cash Price



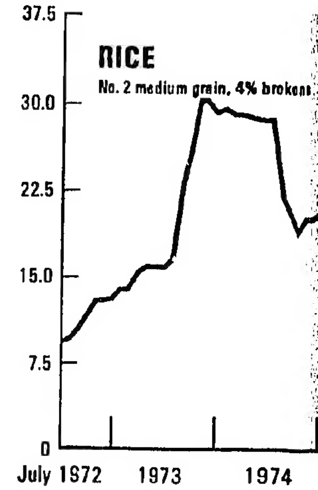
$ Per Bushel

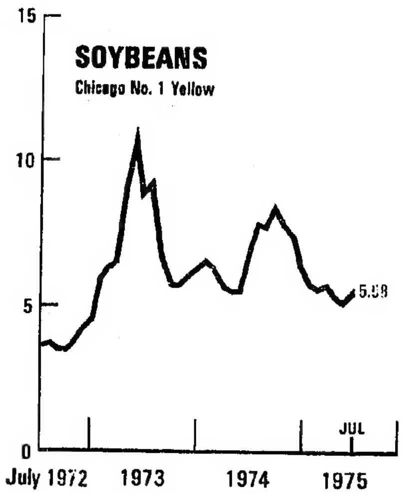
4 Aug	3.83
28 Jul	4.00
Jun 75	3.25
Jul 74	4.34



$ Per Bushel

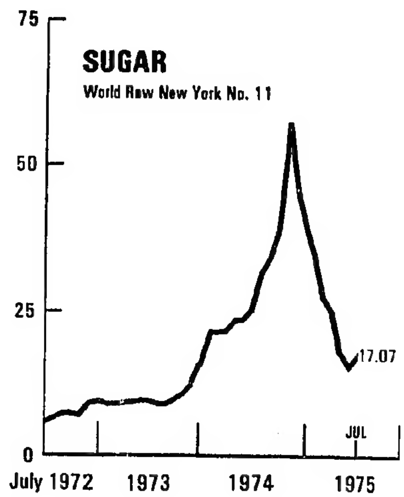
4 Aug	3.10
28 Jul	3.17
Jun 75	2.91
Jul 74	3.29





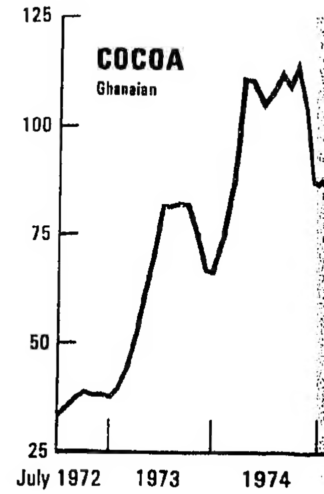
$ Per Bushel

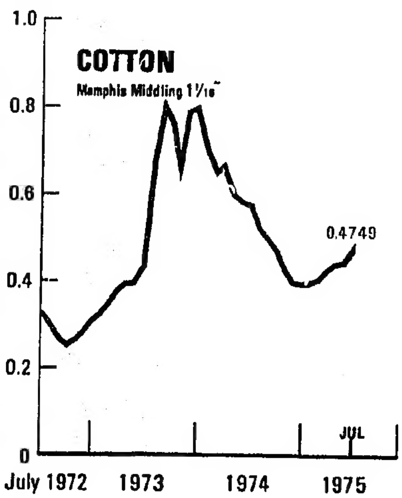
4 Aug	6.02
28 Jul	6.13
Jun 75	5.15
Jul 74	6.80



¢ Per Pound

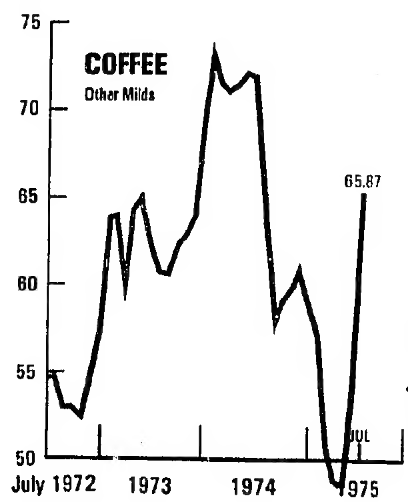
4 Aug	20.60
28 Jul	19.60
Jun 75	13.83
Jul 74	25.40





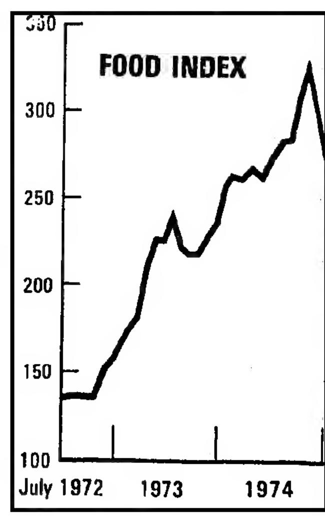
$ Per Pound

4 Aug	0.4935
28 Jul	0.4930
Jun 75	0.4521
Jul 74	0.5680



¢ Per Pound

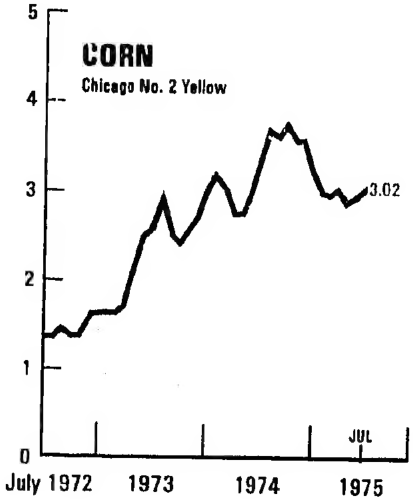
4 Aug	88.00
28 Jul	83.00
Jun 75	53.99
Jul 74	71.75



Monthly Average Cash Price

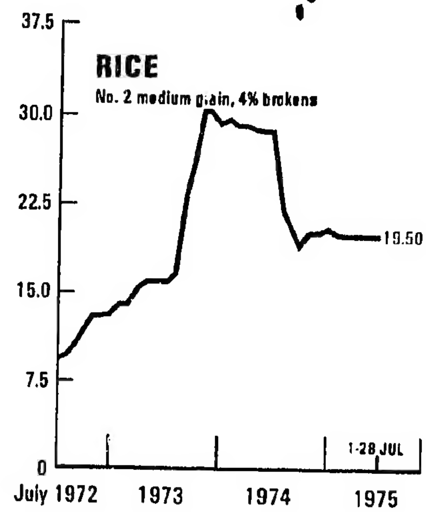
$ Per Bushel

4 Aug	3.83
28 Jul	4.00
Jun 75	3.25
Jul 74	4.34



$ Per Bushel

4 Aug	3.10
28 Jul	3.17
Jun 75	2.91
Jul 74	3.29

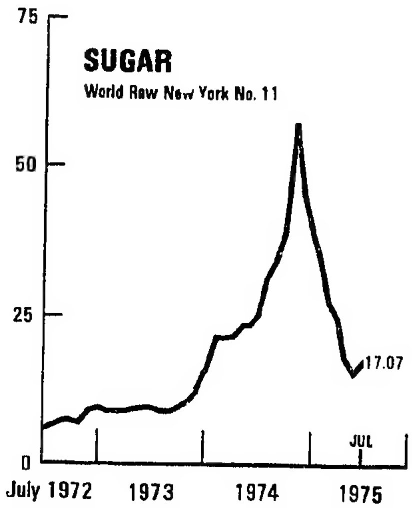


$ Per cwt.
f.o.b. mills, Houston, Tex.

28 Jul	19.50
21 Jul	19.50
Jun 75	19.50
Jul 74	28.50

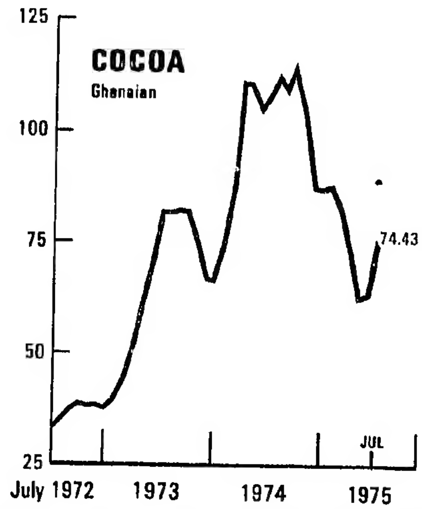
$ Per Bushel

4 Aug	6.02
28 Jul	6.13
Jun 75	5.15
Jul 74	6.80



¢ Per Pound

4 Aug	20.50
28 Jul	19.50
Jun 75	13.83
Jul 74	25.40

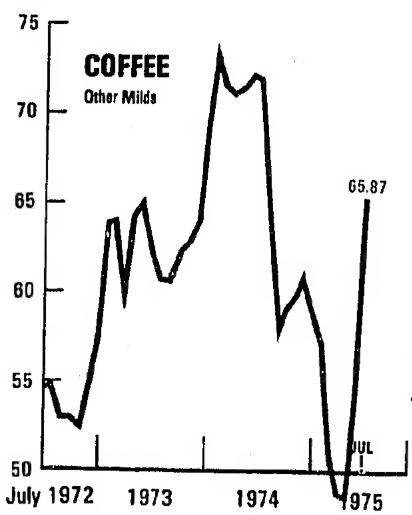


¢ Per Pound
New York price

4 Aug	77.00
28 Jul	80.00
Jun 75	63.48
Jul 74	106.90

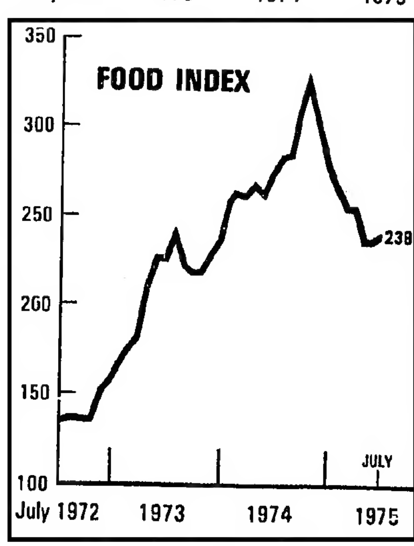
$ Per Pound

4 Aug	0.4935
28 Jul	0.4930
Jun 75	0.4521
Jul 74	0.5680



¢ Per Pound

4 Aug	88.00
28 Jul	83.00
Jun 75	53.98
Jul 74	71.75



1970=100

This is an index compiled by the Economist for 16 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

6 AUGUST 1975
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